

Christopher Cooney

From: Kate Hamrick
Sent: Monday, July 20, 2015 1:02 PM
To: Braulio Baez; Apryl Lynn; Lisa Harvey; Charlie Beck; Mary Anne Helton; CLK - Agenda Staff; Cindy Muir; Commissioners & Staffs; Sonica Bruce; Greg Shafer; Suzanne Brownless; Jennifer Crawford
Cc: Kate Hamrick; Jacqueline Moore; Terri Fleming
Subject: FW: Request for Oral Modification to Item 23 on the July 21, 2015 Agenda - Sandalhaven Rate Case
Attachments: Revised Interim Recommendation Schedules for Sandalhaven - 150102-SU.docx

Please see the approved oral modification request below for Item #23 on the 7/21/15 Commission Conference.

Thank you,

Kate Hamrick
Executive Assistant to
Lisa Harvey, Deputy Executive Director - Technical
Florida Public Service Commission
850-413-6304

From: Braulio Baez
Sent: Monday, July 20, 2015 12:55 PM
To: Greg Shafer
Cc: Lisa Harvey; Cheryl Bulecza-Banks; Suzanne Brownless
Subject: RE: Request for Oral Modification to Item 23 on the July 21, 2015 Agenda - Sandalhaven Rate Case

Approved. Thank you.

Sent from my T-Mobile 4G LTE Device

----- Original message -----

From: Greg Shafer <GShafer@PSC.STATE.FL.US>
Date: 7/20/2015 11:45 AM (GMT-05:00)
To: Braulio Baez <BBaez@PSC.STATE.FL.US>
Cc: Lisa Harvey <LSHarvey@PSC.STATE.FL.US>, Cheryl Bulecza-Banks <CBulecza@PSC.STATE.FL.US>, Suzanne Brownless <SBrownle@PSC.STATE.FL.US>
Subject: Request for Oral Modification to Item 23 on the July 21, 2015 Agenda - Sandalhaven Rate Case

Staff requests approval to make an oral modification to Item 23 scheduled for the July 21, 2015 Commission Agenda Conference. (Docket No. 150102-SU, Application for increase in wastewater rates in Charlotte County by Utilities, Inc. of Sandalhaven.) Staff's proposed modification relates to the Used and Useful (U&U) calculation addressed in Issue 2.

Subsequent to filing its recommendation, staff determined that modifications are necessary to reflect the appropriate U&U percentages. In its recommendation filed July 9, 2015, staff recommended a U&U percentage of 100 percent for the wastewater system, except for a reduction of \$73,089 to land.

In Sandalhaven’s last rate case before the Commission, the Commission approved Phase I and Phase II rates. In arriving at the Phase I revenue requirement, the Commission approved U&U adjustments related to an interconnection, force main, and lift station. The Phase II revenue requirement was based on retirement of the wastewater plant with all wastewater disposed through the interconnection with the Englewood Water District. At the time of the rate case (2007), the Utility projected the wastewater treatment plant to be retired within two years. Phase II rates were never implemented because implementation was contingent upon retirement of the wastewater treatment plant.

The plant is anticipated to be retired within the coming three months. Because the plant has yet to be retired, staff believes it is more appropriate to apply a U&U adjustment based on the methodology used to derive the Phase I rates that the utility implemented.

The attached schedules reflect staff’s revised U&U adjustments. Numbers that were affected by the change in the U&U percentages have been highlighted in the schedules. Modifications to the verbiage in staff’s recommendation filed on July 9, 2015 are reflected below in type and strike format:

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Issue 2: Should any interim increase be approved?

Recommendation: Yes. Sandalhaven has demonstrated the need for an interim rate increase for the wastewater system. Sandalhaven should be authorized to collect annual wastewater revenues as indicated below:

	<u>Adjusted Test Year Revenues</u>	<u>\$ Increase</u>	<u>Revenue Requirement</u>	<u>% Increase</u>
Wastewater	\$669,037	<u>\$611,174</u>	<u>\$1,280,211</u>	<u>91.35</u>
		<u>\$119,553</u>	<u>\$788,590</u>	<u>17.87</u>

(D. Buys, Watts)

Page 5 (first paragraph on page)

Pursuant to Section 367.082, F.S., the method used to calculate Used and Useful (U&U) in Sandalhaven’s last rate case must be used for interim purposes. In Order No. PSC-07-0865-PAA-SU, the Commission made no U&U adjustment to Sandalhaven’s wastewater treatment plant but did make used and useful adjustments to the interconnection with the Englewood Water District (EWD), a master lift station, and a force main based upon the projected usage of the EWD interconnection. Using the same methodology with actual flow data contained in Schedule F-2, the resulting U&U values are 26.54% for the EWD interconnection, 7.96% for the force main, and 15.92% for the master lift station. In addition, found that Sandalhaven’s wastewater system should be considered 100 percent U&U. However, based on staff’s review, a non-used and useful adjustment of \$73,089 should be made to reduce the land balance. The utility made this adjustment in its MFRs for final rates, but overlooked this adjustment in its calculation of rate base for interim rates. This adjustment is consistent with the methodology used in Sandalhaven’s last rate case. No other U&U adjustments are necessary for interim purposes.

Based on the above, staff recommends that Sandalhaven's wastewater rate base for interim purposes is ~~\$3,333,536~~ \$678,176.

Cost of Capital

In its MFRs, Sandalhaven requested a weighted average cost of capital of 10.21 percent based on a return on common equity (ROE) of 11.00 percent and an equity ratio of 57.57 percent. While the 11.00 percent ROE is appropriate in this instance, based on an analysis of the MFRs and staff's review of Order No. PSC-07-0865-PAA-SU, staff believes an adjustment to the utility's capital structure and weighted average cost of capital is necessary.

On MFR Schedule D-2 for interim, the utility reflected a negative amount of \$540,800 for accumulated deferred income taxes (ADITs) in the capital structure. In Sandalhaven's last rate case, the debit ADITs from taxes paid on plant capacity charges (Def Tax Tap Fee Post 2000) and the credit ADITs for acquisition costs (Orgn Exp) were disallowed for ratemaking purposes. Accordingly, staff recommends that the debit ADITs for Tap Fees of \$618,138 and the credit ADITs for acquisition costs of \$35,048 be removed from the debit ADIT balance of \$540,800.

In addition, an adjustment of \$2,235 should be made to reduce the credit ADIT balance to reflect the appropriate non-used and useful credit ADITs related to the EWD Impact Fees, Main Lift Station, and Force Main.

The net adjustment is ~~\$583,090~~ \$580,855 (~~\$618,800 - \$35,048 - \$2,235~~) which results in a positive ADIT balance of ~~\$42,290~~ \$40,055 in the capital structure.

The adjustment to the ADIT balance in the capital structure yields an equity ratio of ~~49.05~~ 46.35 percent and an overall weighted average cost of capital of ~~8.71~~ 8.24 percent. Accordingly, staff recommends that the appropriate weighted average cost of capital for interim purposes is ~~8.71~~ 8.24 percent.

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(Beginning with the third full paragraph)

Third, staff made adjustments to taxes other than income (TOTI) to reflect the change in property taxes associated with the U&U adjustments, revenue, and O&M expense adjustments cited above. Staff reduced the regulatory assessment fees (RAFs) by \$33,132 to reflect the removal of the utility's requested revenue increase.

Based on the above, staff recommends that the appropriate test year operating loss, before any interim revenue increase, is ~~\$73,568~~ \$15,361.

Revenue Requirement

Based on the above adjustments, staff recommends a revenue requirement of ~~\$1,280,211~~ \$788,590. This represents an interim increase in annual revenues of ~~\$611,174~~ \$119,553, or ~~91.35~~ 17.87 percent.

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Issue 3: What are the appropriate interim wastewater rates?

Recommendation: The interim rate increase of ~~91.6~~ 17.92 percent for wastewater should be applied as an across-the-board increase to the utility's existing service rates. The rates, as shown on Schedule No. 4, should be effective for service rendered on or after the stamped approval date

on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. In addition, the approved rates should not be implemented until the required security has been filed, staff has approved the proposed customer notice, and the notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days of the date of the notice. (Bruce)

Staff Analysis: Staff recommends that interim service rates for Sandalhaven be designed to allow the utility the opportunity to generate annual operating revenues of ~~\$1,280,211~~ \$788,590. Before removal of miscellaneous revenues, this would result in an increase of ~~\$611,174~~ \$119,553 (91.35 ~~17.87~~ percent). To determine the appropriate increase to apply to the service rates, miscellaneous revenues should be removed from the test year revenues. The calculation is as follows:

Table 3
Percentage Increase Less Miscellaneous Revenues

	<u>Wastewater</u>
1 Total Test Year Revenues	\$669,037
2 Less: Miscellaneous Revenues	<u>\$1,848</u>
3 Test Year Revenues from Service Rates	\$667,189
4 Revenue Increase	<u>\$611,174</u> <u>\$119,553</u>
5 % Service Rate Increase (Line 4/Line 3)	<u>91.6%</u> <u>17.92%</u>

Staff recommends that the interim rate increase of ~~91.6~~ 17.92 percent be applied as an across-the-board increase to the utility’s existing service rates. The rates, as shown on Schedule No. 4, should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. In addition, the approved rates should not be implemented until the required security has been filed, staff has approved the proposed customer notice, and the notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days of the date of the notice.

Pages 8 and 9

Issue 4: What is the appropriate security to guarantee the interim increase?

Recommendation: A cumulative corporate undertaking is acceptable contingent upon receipt of the written guarantee of the parent company, Utilities, Inc. (UI or company), and written confirmation that the cumulative outstanding guarantees on behalf of UI-owned utilities in other states will not exceed \$1.2 million (inclusive of all Florida utilities). UI should be required to file a corporate undertaking on behalf of its subsidiaries to guarantee any potential refunds of revenues collected under interim conditions. UI’s guaranteed amount subject to refund should be ~~\$356,608~~ \$69,757. However, the utility has volunteered to a corporate undertaking of \$356,608, the amount referenced in staff’s recommendation filed July 9, 2015. Staff recommends accepting

the utility's offer of a corporate undertaking of \$356,608. Pursuant to Rule 25-30.360(6), F.A.C., the utility should provide a report by the 20th of each month indicating the monthly and total revenue collected subject to refund. Should a refund be required, the refund should be with interest and in accordance with Rule 25-30.360, F.A.C. (D. Buys)

Staff Analysis: Pursuant to Section 367.082(2)(a), F.S., revenues collected under interim rates shall be placed under bond, escrow, letter of credit, or corporate undertaking subject to refund with interest at a rate ordered by the Commission. Sandalhaven has requested an annual interim revenue increase of \$724,062 for wastewater. As recommended in Issue 2, the annual interim increase is ~~\$611,174~~ ~~\$119,553~~. In accordance with Rule 25-30.360, F.A.C., staff calculated the potential refund of revenues and interest collected under interim conditions to be ~~\$356,608~~ ~~\$69,757~~. This amount is based on an estimated seven months of revenue being collected under the recommended interim rates shown on Schedule No. 4.

Sandalhaven is a wholly-owned subsidiary of UI, which provides all investor capital to its subsidiaries. Based on the amount subject to refund for Sandalhaven the incremental increase in UI's corporate undertaking is ~~\$356,608~~ ~~\$69,757~~. There are no other current corporate undertaking amounts outstanding for other UI systems in Florida, so therefore, the total cumulative outstanding guarantee is ~~\$356,608~~ ~~\$69,757~~.

The criteria for a corporate undertaking include sufficient liquidity, ownership equity, profitability, and interest coverage to guarantee any potential refund. Staff reviewed UI's 2012, 2013, and 2014 financial statements to determine if the company can support a corporate undertaking on behalf of its subsidiary. In its financial statements, UI reported both an insufficient working capital amount and an inadequate current ratio in 2012 and 2013. In 2013, UI had an insufficient interest coverage ratio. In 2014, the company's working capital amount, current ratio, and interest coverage ratio improved to sufficient levels. In addition, UI achieved sufficient profitability and reported adequate ownership equity over the three-year review period.

Based on staff's review of the financial reports submitted by UI, staff believes UI has adequate resources to support a corporate undertaking in the amount requested. Based on this analysis, staff recommends that a cumulative corporate undertaking of ~~\$356,608~~ ~~\$69,757~~ is acceptable contingent upon receipt of the written guarantee of UI and written confirmation that the cumulative outstanding guarantees on behalf of UI-owned utilities in other states will not exceed \$1.2 million (inclusive of all Florida utilities).

Based on staff's revised recommended revenue requirement, the corporate undertaking should be \$69,757. However, the utility has volunteered, for their administrative ease, to a corporate undertaking of \$356,608, as it has already taken action to secure this amount based on staff's recommendation filed July 9, 2015. As the amount of staff's revised required corporate undertaking is less than staff's original corporate undertaking, the amount will be sufficient to cover any potential refund.

The brief financial analysis above is only appropriate for deciding if UI can support a corporate undertaking in the amount proposed and should not be considered a finding regarding staff's position on other issues in this proceeding.

Pursuant to Rule 25-30.360(6), F.A.C., the utility should provide a report by the 20th day of each month indicating the monthly and total revenue collected subject to refund. Should a refund be required, the refund should be with interest and undertaken in accordance with Rule 25-30.360, F.A.C.

In no instance should maintenance and administrative costs associated with any refund be borne by the customers. The costs are the responsibility of, and should be borne by, the utility.

**Utilities, Inc. of Sandalhaven
Schedule of Wastewater Rate Base
Test Year Ended 12/31/14**

**Schedule No. 1-A
Docket No. 150102-SU**

Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year
1 Plant in Service	\$8,571,371	(\$16,502)	\$8,554,869	\$0	\$8,554,869
2 Land and Land Rights	157,487	209	157,696		157,696
3 Non-used and Useful Components	0	0	0	(2,728,449)	(2,728,449)
4 Accumulated Depreciation	(3,712,738)	20,172	(3,692,566)	0	(3,692,566)
5 CIAC	(3,276,640)	0	(3,276,640)	0	(3,276,640)
6 Amortization of CIAC	1,595,021	0	1,595,021	0	1,595,021
7 Construction Work in Progress	134,200	(134,200)	0	0	0
8 Working Capital Allowance	<u>0</u>	<u>73,343</u>	<u>73,343</u>	<u>(5,098)</u>	<u>68,245</u>
9 Rate Base	<u>\$3,468,701</u>	<u>(\$56,978)</u>	<u>\$3,411,723</u>	<u>(2,733,547)</u>	<u>\$678,176</u>

**Utilities, Inc. of Sandalhaven
Adjustments to Rate Base
Test Year Ended 12/31/14**

**Schedule No. 1-B
Docket No. 150102-SU**

Explanation	Wastewater
<u>Plant In Service</u>	<u>\$0</u>
<u>Non-used and Useful</u>	
1 Reflect non-used and useful adjustment to Land. (Issue 2)	(\$73,089)
2 Reflect net non-used & useful adjustment for Impact Fees to EWD. (Issue 2)	(\$1,260,830)
3 Reflect net non-used & useful adjustment for Mater Lift Station & Force Main. (Issue 2)	(\$1,394,530)
Total	(\$2,728,449)
<u>Accumulated Depreciation</u>	<u>\$0</u>
<u>CIAC</u>	<u>\$0</u>
<u>Accumulated Amortization of CIAC</u>	<u>\$0</u>
<u>Working Capital</u>	
To reflect the appropriate working capital allowance (Issue 2)	(\$5,098)

**Utilities, Inc. of Sandalhaven
Capital Structure-Simple Average
Test Year Ended 12/31/14**

**Schedule No. 2
Docket No. 150102-SU**

Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Prorata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
Per Utility								
1 Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$178,061,256)	\$1,938,744	56.83%	6.64%	3.77%
2 Short-term Debt	\$4,000,000	\$0	\$4,000,000	(\$3,956,917)	\$43,083	1.26%	7.77%	0.10%
3 Preferred Stock	\$0	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
4 Common Equity	\$182,354,550	\$0	\$182,354,550	(\$180,390,445)	\$1,964,105	57.57%	11.00%	6.33%
5 Customer Deposits	\$6,591	\$0	\$6,591	\$0	\$6,591	0.19%	2.00%	0.00%
6 Deferred Income Taxes	(\$540,800)	\$0	(\$540,800)	\$0	(\$540,800)	-15.85%	0.00%	0.00%
7 Total Capital	<u>\$365,820,341</u>	<u>\$0</u>	<u>\$365,820,341</u>	<u>(\$362,408,618)</u>	<u>\$3,411,723</u>	<u>100.00%</u>		<u>10.21%</u>
Per Staff								
8 Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$179,689,712)	\$310,288	45.75%	6.64%	3.04%
9 Short-term Debt	\$4,000,000	\$0	\$4,000,000	(\$3,993,105)	\$6,895	1.02%	7.77%	0.08%
10 Preferred Stock	\$0	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
11 Common Equity	\$182,354,550	\$0	\$182,354,550	(\$182,040,203)	\$314,347	46.35%	11.00%	5.10%
12 Customer Deposits	\$6,591	\$0	\$6,591	\$0	\$6,591	0.97%	2.00%	0.02%
13 Deferred Income Taxes	(\$540,800)	\$580,855	\$40,055	\$0	\$40,055	5.91%	0.00%	0.00%
14 Total Capital	<u>\$365,820,341</u>	<u>\$580,855</u>	<u>\$366,401,196</u>	<u>(\$365,723,020)</u>	<u>\$678,176</u>	<u>100.00%</u>		<u>8.24%</u>
						LOW	HIGH	
						RETURN ON EQUITY	11.00%	13.00%
						OVERALL RATE OF RETURN	8.24%	9.16%

**Utilities, Inc. of Sandalhaven
Statement of Wastewater Operations
Test Year Ended 12/31/14**

**Schedule No. 3-A
Docket No. 150102-SU**

Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$668,757</u>	<u>\$736,541</u>	<u>\$1,405,298</u>	<u>(\$736,261)</u>	<u>\$669,037</u>	<u>\$119,553</u> 17.87%	<u>\$788,590</u>
Operating Expenses							
2 Operation & Maintenance	\$581,100	\$5,646	\$586,746	(\$40,787)	\$545,959	\$0	\$545,959
3 Depreciation	264,739	(87,157)	177,582	(118,057)	59,525	0	59,525
5 Taxes Other Than Income	113,952	48,580	162,532	(61,518)	101,014	5,380	106,394
6 Income Taxes	(118,083)	248,359	130,276	(152,377)	(22,101)	42,963	20,862
7 Total Operating Expense	<u>841,708</u>	<u>215,428</u>	<u>1,057,136</u>	<u>(372,738)</u>	<u>684,398</u>	<u>48,343</u>	<u>732,741</u>
8 Operating Income	<u>(\$172,951)</u>	<u>\$521,113</u>	<u>\$348,162</u>	<u>(\$363,523)</u>	<u>(\$15,361)</u>	<u>\$71,209</u>	<u>\$55,849</u>
9 Rate Base	<u>\$3,468,701</u>		<u>\$3,411,723</u>		<u>\$678,176</u>		<u>\$678,176</u>
10 Rate of Return	<u>-4.99%</u>		<u>10.20%</u>		<u>-2.26%</u>		<u>8.24%</u>

**Utilities, Inc. of Sandalhaven
Adjustment to Operating Income
Test Year Ended 12/31/14**

**Schedule No. 3-B
Docket No. 150102-SU**

Explanation	Wastewater
<u>Operating Revenues</u>	
1 Remove requested final revenue increase. (Issue 2)	(\$724,062)
2 Reflect the appropriate amount of annualized revenues. (Issue 2)	<u>(12,199)</u>
Total	<u>(\$736,261)</u>
<u>Operation and Maintenance Expense</u>	
1 Remove annualization of amortization of deferred charges. (Issue 2)	(\$1,798)
2 Excessive I&I adjustment. (Issue 2)	<u>(38,989)</u>
Total	<u>(\$40,787)</u>
<u>Depreciation Expense - Net</u>	
1 Reflect net non-used & useful adjustment for Impact Fees to EWD. (Issue 2)	<u>(\$45,484)</u>
2 Reflect net non-used & useful adjustment for Lift Station & Force Main. (Issue 2)	<u>(72,573)</u>
Total	<u>(\$118,057)</u>
<u>Taxes Other Than Income</u>	
1 RAFs on revenue adjustments above. (Issue 2)	(\$33,132)
2 Reflect property taxes related to the non-used & useful adjustment. (Issue 2)	<u>(28,386)</u>
Total	<u>(\$61,518)</u>

**Utilities, Inc. of Sandalhaven
Monthly Wastewater Rates
Test Year Ended 12/31/14**

**Schedule No. 4
Docket No. 150102-SU**

	CURRENT RATES	UTILITY REQUESTED INTERIM	UTILITY REQUESTED FINAL	STAFF RECOMMENDED INTERIM
<u>Residential</u>				
Base Facility Charge - All Meter Sizes	\$29.34	\$60.69	\$70.12	\$34.60
Charge per 1,000 Gallons- Residential 8,000 gallon cap	\$6.59	\$13.63	\$15.75	\$7.77
<u>General Service and Multi-Residential</u>				
Base Facility Charge by Meter Size				
5/8" x 3/4"	\$29.34	\$60.69	\$70.12	\$34.60
1"	\$73.35	\$151.72	\$175.31	\$86.50
1-1/2"	\$146.69	\$303.42	\$350.59	\$173.00
2"	\$234.71	\$485.49	\$560.96	\$276.80
3"	\$469.43	\$971.00	\$1,121.94	\$553.60
4"	\$733.47	\$1,517.17	\$1,752.99	\$865.00
6"	\$1,466.94	\$3,034.33	\$3,505.99	\$1,730.00
Restaurant 1"	\$73.35	\$151.72	\$175.31	\$86.50
Charge per 1,000 Gallons - General Service	\$7.92	\$16.38	\$18.93	\$9.34
Reserved Capacity - Flat Charge per unit	\$28.42	\$58.79	\$67.92	\$33.51
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>				
3,000 Gallons	\$49.11	\$101.58	\$117.37	\$57.91
5,000 Gallons	\$62.29	\$128.84	\$148.87	\$73.45
8,000 Gallons	\$82.06	\$169.73	\$196.12	\$96.76